

Issue: Flat Management

Flat Management

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## Can reducing hierarchy improve results?

### Executive Summary

Flat management techniques, spurred by the growth of technology companies, are becoming more popular, but it's an approach that can offer advantages to other types and sizes of businesses, too. Although it isn't applicable to all situations, flat management will likely keep gaining ground as the economy continues to evolve and businesses are forced to adapt. The increasing use of technology and social media, coupled with the need for businesses to make quick decisions to remain competitive, ensures flat structures will remain a viable option. Some companies take a dual approach by implementing a flat structure for certain elements of the business while maintaining a more traditional management hierarchy overall.

### Overview



Tony Hsieh, CEO of Zappos, in foreground, types at his desk on “monkey row,” the clutter-strewn area of company headquarters where he and other executives of the online retailer work. Zappos is one of the largest U.S. companies experimenting with a flattened management structure. (Zappos)

When [Stephen Courtright](#) teaches his business students at Texas A&M University about leadership styles, he cites the experience of a Fortune 500 health care company to illustrate flat management.

A former executive at Denver-based [DaVita HealthCare Partners](#) had been someone other employees expected to solve all their problems—and she did. “She was just kind of a do-it-all-er,” Courtright says.

When a new executive took over and needed to revamp schedules for health care workers and for patient treatments, she could have done it herself, the way her predecessor would have.

But she chose a different path, opting to organize “a cross-functional team where they themselves came up with a proposal which they then proposed to the entire organization, got feedback on it, went and revised it, represented it to the other team, made final adjustments and then got the sign-off from the leader,” says Courtright, assistant professor in the management department of Texas A&M's Mays Business School in College Station, Texas.

Even in the same “fairly hierarchical organization,” he says, the executives took two very different approaches to handling a management issue. “Any leader in any organization can empower their workers to solve problems. I don't care what organization—you can empower people to solve their own problems,” he says. “That's the principle I want my students taking away from flat management.”

Since the mid-20<sup>th</sup> century, with a global marketplace and a changing economic environment, more companies are adopting leaner and flatter management structures to remain innovative, reduce costs and retain employees.<sup>1</sup>

While the overall number of companies following flat management techniques remains relatively small, and they often are privately held, these firms are garnering attention for their nontraditional approaches. And data are beginning to indicate such methods can be effective, says Tim Kastelle, senior lecturer at the University of Queensland's business school in Brisbane, Australia.

“The level of success that these organizations are achieving is pretty high,” he says, “so it adds up to a fairly suggestive set of cases.”

Drawing on his own research, Kastelle says organizations that include front-line employees in decision-making are “way more innovative and their performance is better” than traditionally organized companies.

A traditional hierarchy is shaped like a pyramid, with one person, typically the CEO, perched at the top, followed by layers of managers, with front-line workers forming the base.

A flat structure can take various forms, but it essentially eliminates some, even all, those layers between the folks at the top and the folks at the bottom. The flattest companies, such as game maker Valve of Bellevue, Wash., are horizontal and essentially have no managers. But many companies regarded as flat, including Google and online shoe and clothing retailer Zappos, retain some kind of management structure, albeit pared down significantly from the traditional hierarchical pyramid.<sup>2</sup>

Even with such changes taking place, there are still plenty of business observers who contend that while modern managers might need to redefine their roles, the roles themselves are still necessary.<sup>3</sup> And the experiences of some flat companies underscore the point. Even the flattest of companies still have a leader or group of leaders who can make final decisions, and some have reinstated layers of management after running into operational problems.<sup>4</sup>

That balance of leadership—as well the differing approaches of publicly and privately held companies—is a key factor in determining whether a business can implement a flatter management technique.

“Flat organization structures require leaders to give up a lot of control, and they typically involve the company taking a long-term view on its development,” says Julian Birkinshaw, professor of strategy and entrepreneurship at the London Business School. “So if you are on a quarterly earnings cycle, it is much harder to justify this model. And analysts are also skeptical of these nontraditional organizing models,” so leaders of publicly traded companies “tend to opt for more traditional structures.”

Jim Belosic, co-founder and CEO of Pancake Laboratories, a Reno, Nev.-based software company that makes ShortStack software, realized he was practicing flat management as his company grew from an initial trio to more than a dozen employees. He believed the company and its culture are better for having taken that approach and urges other small business to consider the same course.<sup>5</sup>

“When I hire these days, I bring on people who have a manager’s mentality but a producer’s work ethic,” Belosic wrote. “In other words, they think like managers and figure out what needs to be done, and then they do the work.”

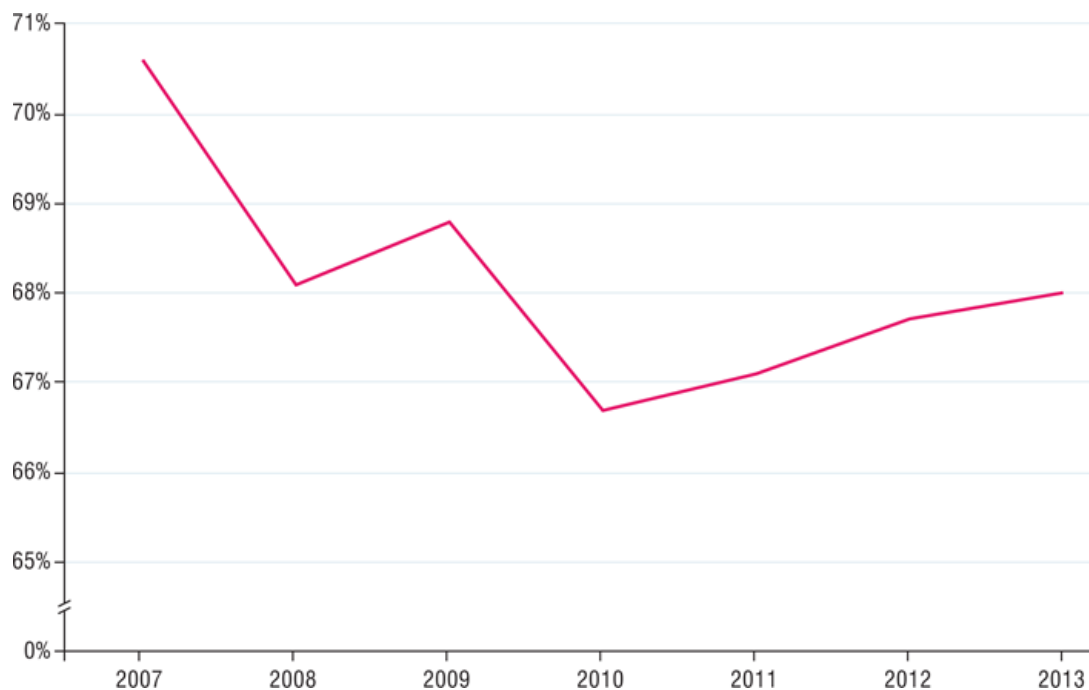
The goal, according to Traci Fenton, founder and CEO of WorldBlu, a firm that advocates flattening management through workplace democracy, is to encourage businesses to shift away from a command-and-control, top-down management style to keep up with the changing demands of the marketplace.

“We’ve moved from the industrial age to the information age, and the information age has given birth to a democratic age, which is an age of unprecedented participation and collaboration unlike anything we’ve ever seen before,” she says. For companies to remain relevant, Fenton says, they must redesign their operations and rethink their management technique. “What more and more companies are realizing is that in order to be competitive, in order to be nimble, in order to attract great talent, in order to be an environment where millennials will thrive,” she says, “it needs to be a flatter, more democratic organization.”

Similarly, Morning Star Self-Management Institute, a research and consulting firm affiliated with Morning Star Co., a California tomato processor that embraces flat management, contends that empowered workers are happy and creative workers. While WorldBlu calls its system organizational democracy, Morning Star uses the term self-management; each is a means to a flatter management end. “It doesn’t make a lot of sense to give the decision-making authority to the person that [is] furthest (literally) away from the actual work being done,” according to the institute’s website.<sup>6</sup>

## Employee Engagement Ticks Up

Percentage of engaged employees in the United States, by year



Source: Natalie Hackbarth, David Weisser and Hilary Wright, “2014 Employee Engagement Trends Report,” Quantum Workplace, July 2014, p. 11, <http://tinyurl.com/kf8e2a>

A common goal of companies with flattened management structures is to increase employee engagement by eliminating middle-management positions. According to an annual survey of nearly 5,000 organizations, the

percentage of engaged employees fell to a four-year low in 2010 before rising to 68 percent in 2013.

Research demonstrates that groups of employees who manage themselves can be more productive. A study by Courtright and researchers from the University of Iowa and Texas A&M found that on the basis of data from 587 factory workers in 45 self-managing teams at three Iowa factories, “peer-based rational control corresponded with higher performance for both individuals and collective teams.”<sup>7</sup>

Courtright explained how that translates into the workplace: “In high functioning teams, the group takes over most of the management function themselves. They work with each other, they encourage and support each other, and they coordinate with outside teams. They collectively perform the role of a good manager.”<sup>8</sup>

At Pancake Laboratories, Belosic said a flat approach allowed his company to experience advantages other businesses have reported, such as:<sup>9</sup>

- Making faster decisions.
- Encouraging more collaboration among employees.
- Reducing spending on unnecessary or redundant jobs.
- Spending less time on human-resource issues and more on business development.
- Freeing up management-level people to spend more time doing what they're good at and were originally hired to do.

But flat management has its drawbacks. In terms of the effect on the business as a whole, companies always take risks when they empower people, Birkinshaw says.

“Some [employees] lack the competence or the will to do a good job, and this can result in mistakes being made or people doing things that take the company in the wrong direction,” he says. “The ultimate case is Enron—supremely flat, but employees were given so much freedom that they ended up creating all sorts of poorly thought-out businesses that lost the company a lot of money and contributed to its eventual demise.”<sup>10</sup>

And when things go wrong, Birkinshaw adds, “even the really flat companies tend to become more hierarchical when a crisis or external problem hits. It is human nature to ‘circle the wagons’ or to go ‘back to basics’ when faced with a threat.”

In terms of the effect on employees, critics contend such an environment can stifle career advancement for those wanting to climb the corporate ladder or can mask hidden power structures and thus could shield employees from accountability. And as flat companies hire workers who will fit in with their culture, a procedure that frequently slows the hiring process, they also may be creating a homogenous workforce.<sup>11</sup>

Despite these criticisms, the use of flat management is growing.<sup>12</sup> Smaller companies and the technology sector have been the most enthusiastic converts to flat management because of the collaborative nature of the business, the creative nature of the products, the need to make rapid decisions and the influx of younger workers. But larger companies and other industries are also using it, albeit with different approaches and to different degrees. And the trend is not limited to the United States, either: Companies across the globe are implementing flat management practices. Even militaries in the United States and abroad are working on ways to reduce hierarchies and empower soldiers to make rapid decisions on the battlefield.<sup>13</sup>

As researchers and executives assess the results of flat management techniques, these are some of the questions under debate:

## Weighing the Issues

### Can a flat management structure help the bottom line?

Flattening the management structure and thus empowering employees “certainly has made a big difference for companies like Google, like Southwest Airlines, 3M and many, many others,” says Courtright of Texas A&M.<sup>14</sup>

Courtright has experienced some of the ramifications of worker empowerment during his own travels. “If you go to a Southwest baggage clerk for example, they can make a decision on the spot rather than consult with a manager above them, which is very different than say a lot of the rental car companies that you might go to,” he says. “With rental car companies they have to ask their manager for anything and everything.”

Clothing manufacturer W.L. Gore & Associates is “a perfect example” of nimble management, Courtright says. “They adopted this model back in the '50s, really structuring it to be more of an empowering environment, and they're one of the few privately held companies in their



industry that has had as large a profit margin as they've had over the years.” Gore, a Newark, Del., firm with about \$3.2 billion in annual revenue and 10,000 workers—referred to as associates and sponsors, not employees and bosses—is run by the Gore family and its workers.<sup>15</sup> It doesn't report profit figures, but as the maker of Gore-Tex fabric, it is a leader in the outdoor gear industry.<sup>16</sup>

While many of the companies practicing flat management techniques began that way, some altered their structure. One example is the Brazilian conglomerate Semco Group, which grew from a family manufacturing operation. When Ricardo Semler took over the business, he restructured the company into a “radical workplace” operating with a participatory management structure.<sup>17</sup> The privately held firm has maintained about 20 percent growth annually for the

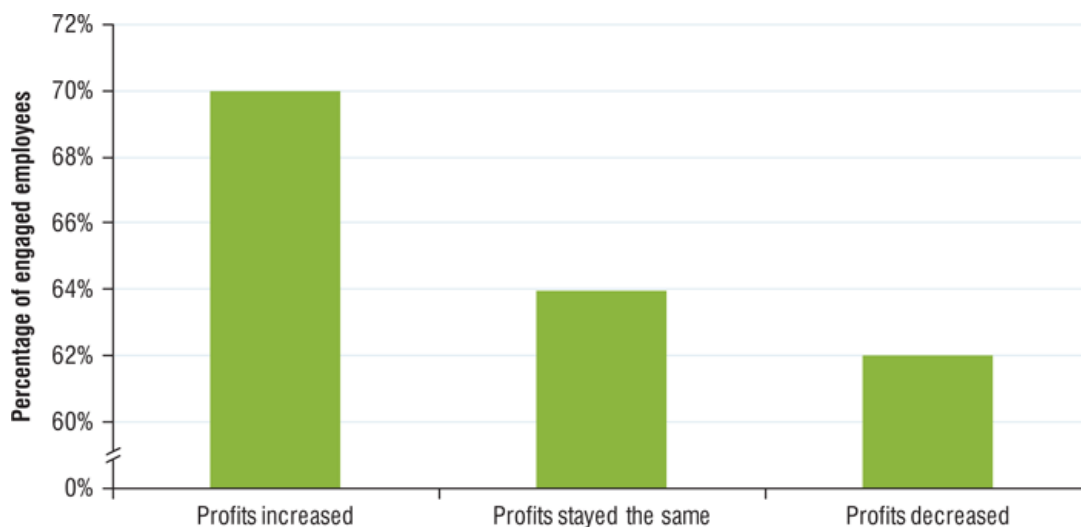
A Southwest Airlines employee works at an airport check-in desk. The company's employees are empowered to make many decisions without requiring supervisory sign-off. (Southwest Airlines)

past 30 years.<sup>18</sup>

Courtright and others point to research showing the correlation between employee engagement and enhanced productivity.<sup>19</sup>

## Profits Increase at Companies with Higher Employee Engagement

Percentage of engaged employees at companies, by profit change from 2010–13



Source: Natalie Hackbarth, David Weisser and Hilary Wright, “2014 Employee Engagement Trends Report,” Quantum Workplace, July 2014, p. 21, <http://tinyurl.com/kf8e2a>

According to a survey of 5,000 organizations in 40 American cities, 70 percent of employees were “engaged”—given greater autonomy—at organizations where profits increased over the last three years, compared with 62



percent of employees who were engaged at organizations where profits decreased.

“We’ve found in our study that teams who felt more empowered through a psychological perspective achieved higher performance,” says Courtright, adding that other studies he has conducted confirmed those results.

“So the fact is, this model does impact the bottom line, but it does all depend on the strategy, too,” he says. The key is for a company to align its organizational design and its business strategy. If the strategy requires constant innovation, such as a software company, then a flat approach could complement that. But if the strategy depends on product consistency, for instance, such as a fast-food company, then it might be more suited to a more traditional hierarchy.

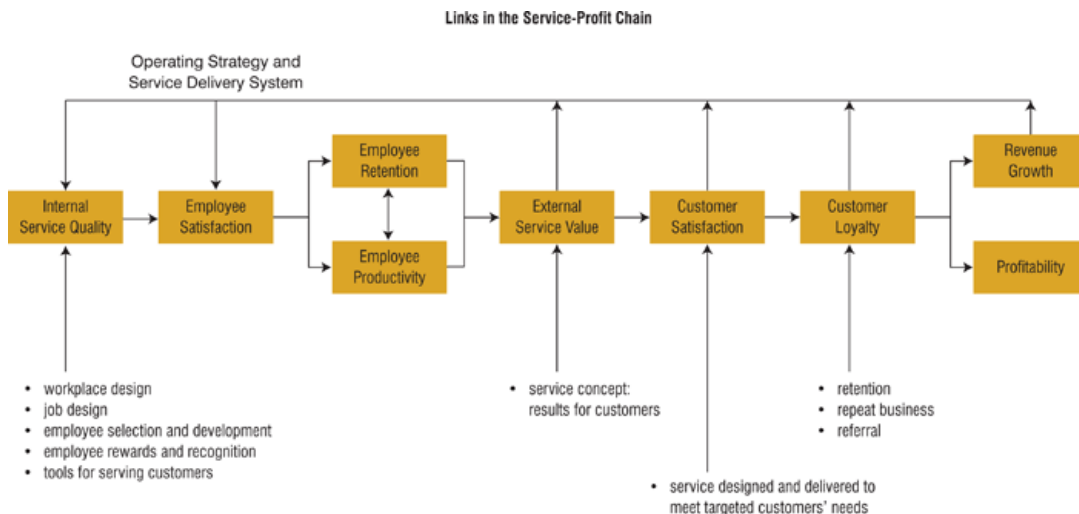
Research by organizations such as Omaha, Neb.-based Quantum Workplace, which consults with companies about how to increase business by improving their employees' engagement, has found a correlation between productivity, profitability and employee engagement. An engaged workforce—meaning workers who are involved and enthusiastic about their jobs—can create a competitive advantage.

According to Quantum's studies, organizations with the highest level of engagement showed: <sup>20</sup>

- An 87 percent increase in revenue the following three years.
- An 86 percent increase in market share.
- A 57 percent lower employee turnover rate.

That link between employee engagement and company results illustrates the theory behind the service-profit chain, according to Greg Harris, Quantum's president and CEO. The service-profit chain, as first outlined in the Harvard Business Review in 1994, establishes relationships between profitability, customer loyalty, and employee satisfaction, loyalty and productivity. <sup>21</sup>

## Profitability Tied to Employee Satisfaction, Customer Loyalty



Source: James L. Heskett, Thomas O. Jones, Gary W. Loveman, W. Earl Sasser, Jr. and Leonard A. Schlesinger, "Putting the Service-Profit Chain to Work," Harvard Business Review, July 2008 (originally published March-April 1994), <http://tinyurl.com/n9bc6vu>

Companies with flatter structures aim to establish links between profitability, customer loyalty and employee productivity and satisfaction. The service-profit chain demonstrates the theory of how satisfied employees improve organizational results. "Internal service quality"—such as providing better workspaces—enables employees to better serve customers and leads to greater employee satisfaction. Companies with satisfied workers should have higher employee retention and productivity. Better services lead to higher levels of customer satisfaction. A satisfied customer base, in turn, leads to increased revenue and profits.

All of this relates to flat management because companies using flatter systems tend to possess more of the factors that lead to higher levels of employee engagement. So it follows that if flat management can increase employee engagement, it also can increase profitability.

"From a financial perspective that might make sense," Harris says, explaining that the flatter the organization, the more people there are who "actually touch customers and can impact the customer experience, [and] the more opportunity they have to drive client loyalty"—the elements of the service-profit chain. At the same time, he says, "the less hierarchical management you have, the fewer the layers of overhead expense."

Those factors together make the case that flat management structures can boost the bottom line, Harris says. "It's definitely a worthwhile hypothesis."

## Can a flat management style work for any type of business?

Kastelle argued in "Hierarchy Is Overrated" that a flat organizational structure can work anywhere.<sup>22</sup> Flat management, he wrote, thrives under certain conditions, including a rapidly changing environment, the need for innovation and a shared purpose within an organization. Generally speaking, flat management works best in small and medium-sized businesses that are privately held, but Kastelle and others contend many of its principles can be applied in other scenarios.

The number and type of employees both affect a company's ability to flatten its management structure. Companies using flat structures range from small tech start-ups with a handful of employees, to the Brazilian company Semco with more than 3,000 workers, to manufacturer W.L. Gore with more than 10,000 employees.

Size becomes a factor in establishing a management structure at some point between about 80 and 150 employees, says Birkinshaw.

"I don't believe it's possible to completely get rid of hierarchy," he says. "I think hierarchy has lots of negative connotations but, actually, some level of hierarchy is necessary to make an organization of more than about 100 people work."

So the question becomes how much structure to impose, how flat a company can go. Even the flattest of organizations ultimately have a leader or management team who can make final decisions. Google, for instance, attempted to rid itself of so many managers at one point that business was disrupted and some layers were added back into the structure.<sup>23</sup> With about 50,000 employees, Google still remains much less hierarchical than other companies of its size, Birkinshaw says.

"Flatter is easier in small and medium-sized companies," he says. "Big companies will always have some sort of hierarchy—it is just a necessary element of being big. So the question is, can a large company be relatively flat compared to its peers?"

Flat companies also need employees who thrive in such an environment—individuals who are independent and creative. That's one reason businesses with flat management can have a longer hiring process, or even a process where fellow employees do the hiring.

Courtright discusses these considerations with his students as they contemplate their own job options. For a flat organization to work well, he says, "you have to get people whose primary motivation for going into that organization is to work on creative and challenging projects. The corporate ladder isn't all that important to them. It's the notion of continually working on new and challenging tasks. If that's what their motivation is, they'll succeed in one of these organizations."

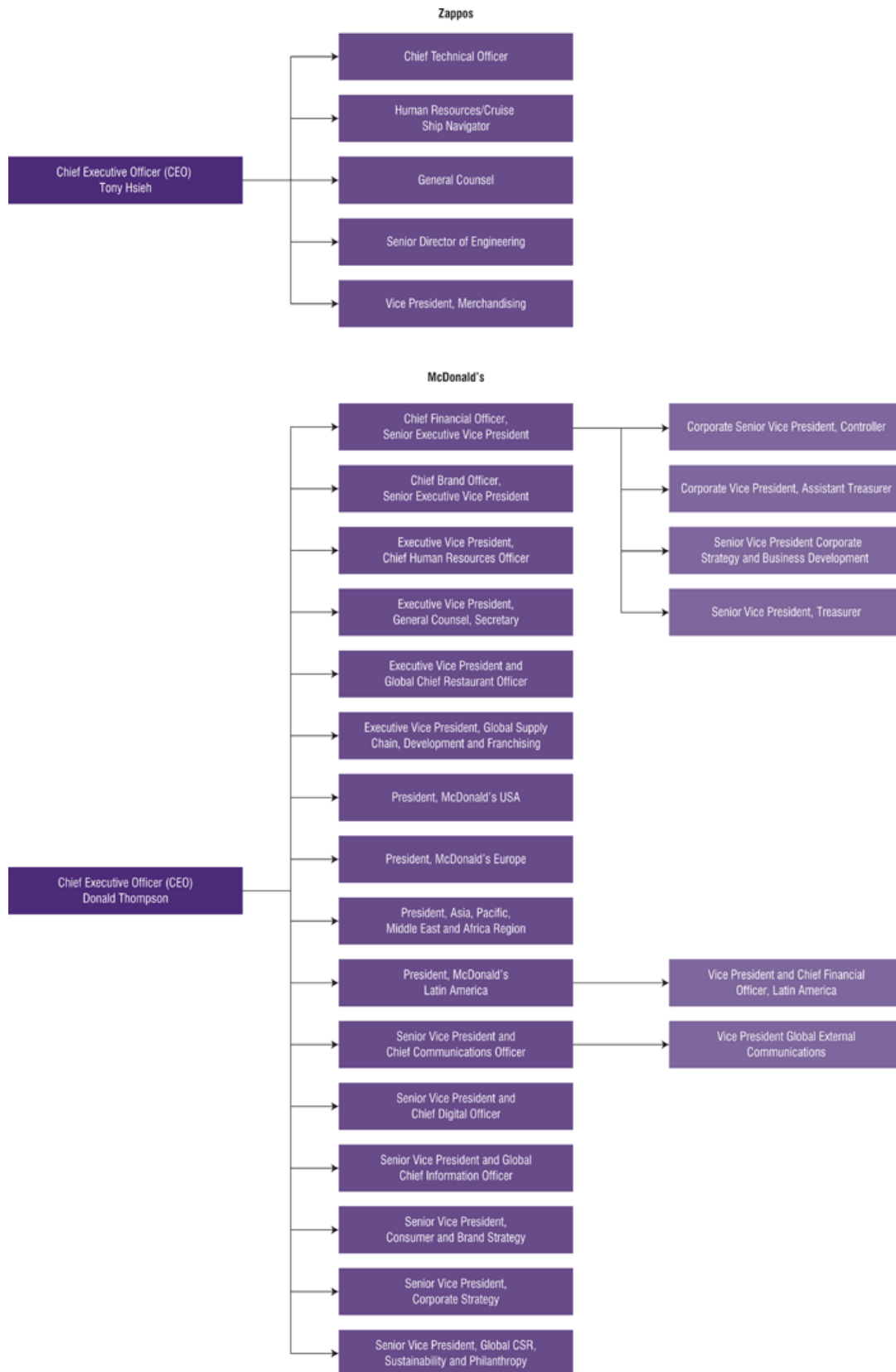
On the flip side, "if their motivation is to climb up the corporate ladder," Courtright says, "then they'd be much better suited for a hierarchical organization where that's more possible."

Another factor affecting a company's ability to flatten its management structure is its business strategy, for instance, whether it revolves around the need for constant innovation or a consistent product. "The design of your organization has to fit its strategy," Courtright says.

On the one hand, Courtright cites the Google example. "Their strategy is to continually come up with innovative apps or products, and they're all about innovation," he says. "That's ultimately their bread and butter." Because of that mission, he continues, "they have to structure the organization in a way that fosters innovation. So they configured a very flat structure. They give workers a lot of autonomy and freedom."

On the other hand, Courtright pointed to a company like McDonald's, whose business model centers on being consistent and familiar. Because they need to remain predictable to their customers, he says, "they structure their organization to be far more hierarchical."

## Flat Management vs. Corporate Hierarchy



Source: Zappos organizational structure from "Zappos," The Official Board, updated June 20, 2014, <http://tinyurl.com/okd8n4u>; McDonald's organizational structure from "McDonald's," The Official Board, updated Sept. 9, 2014, <http://tinyurl.com/d3er25l>, and Our Company/Leadership, McDonald's, accessed Nov. 19, 2014, <http://tinyurl.com/7r6nenm>

Online shoe retailer Zappos adopted a flattened approach to executive management in December 2013 and has six executives over two levels of its corporate hierarchy. McDonald's, by contrast, has a top-down hierarchical corporate structure with 10 different executive positions in just the second level of its hierarchy.



hierarchical corporate structure with 16 different executive positions in just the second level of its hierarchy.

Flat management means different things at different companies, some of which have followed the model for decades.

Morning Star, the tomato processor, has adhered to a self-management philosophy since its founding in 1970. According to the company's website, "We envision an organization of self-managing professionals who initiate communication and coordination of their activities with fellow colleagues, customers, suppliers and fellow industry participants, absent directives from others."<sup>24</sup>

At Morningstar, no one has a boss, employees negotiate their responsibilities with their peers, and workers have to get the tools they need to do their jobs—meaning if you need an \$8,000 welding machine, you order it. The company's business units negotiate customer-supplier agreements, employees initiate the hiring process when they need help, and disagreements are resolved through a mediation process that can, but rarely does, end up on the president's desk for a final decision.<sup>25</sup>

Nick Kastle, a business development specialist, explained how his working for Morning Star differed from his previous employer: "I used to work in a company where I reported to a VP, who reported to a senior VP, who reported to an executive VP. Here, you have to drive the bus. You can't tell someone, 'Get this done.' You have to do whatever needs to be done."<sup>26</sup>

Valve, the software maker and game developer, has been bossless since it began in 1996.<sup>27</sup> The company's handbook—with the subtitle "A fearless adventure in knowing what to do when no one's there telling you what to do"—is available online.<sup>28</sup>

"It's a classic example of one of the most extreme forms of flat management," says Cliff Oswick, professor of organization theory at City University London's Cass Business School. The company has no job titles, and the desks have wheels so employees can move around the office.<sup>29</sup>

"Your challenge is to add value where you can," he says. "So you decide which project you want to work on; you decide when you want to enter or leave a project, and the whole process of evaluating your performance is done by your peers, including the level for remuneration."

Since its founding in 1958, "Gore has been a team-based, flat lattice organization that fosters personal initiative," according to the company's website. "There are no traditional organizational charts, no chains of command, nor predetermined channels of communication."<sup>30</sup>

The company's president and CEO, Terri Kelly, said it's not realistic to expect a single leader to have all the answers. "It's far better to rely upon a broad base of individuals and leaders who share a common set of values and feel personal ownership for the overall success of the organization. These responsible and empowered individuals will serve as much better watchdogs than any single, dominant leader or bureaucratic structure."<sup>31</sup>

Zappos, the online retailer, recently adopted a management style known as [holacracy](#), which seeks to integrate the advantages of top-down and bottom-up structures.<sup>32</sup> As the company's CEO Tony Hsieh told employees in announcing the plan, "Darwin said that it's not the fastest or strongest that survive. It's the ones most adaptive to change."<sup>33</sup>

"We're classically trained to think of 'work' in the traditional paradigm," John Bunch, a Zappos employee who is helping lead the transition to holacracy, told the online business news site Quartz.<sup>34</sup> "One of the core principles is people taking personal accountability for their work. It's not leaderless. There are certainly people who hold a bigger scope of purpose for the organization than others. What it does do is distribute leadership into each role. Everybody is expected to lead and be an entrepreneur in their own roles, and holacracy empowers them to do so."

For Zappos workers on a day-to-day basis, that translates to more clarity about who owns what, says Alexis Gonzales-Black, who also is helping lead the change to holacracy. "If you need to get something done, rather than emailing a bunch of people, you can look up exactly who is in charge of something," she says. "For many people, it's also meant expanding the scope of their work. In the old system, you might have been siloed into one kind of role, but now that it's more open, people are reaching across circles and taking on work outside of their main area."

Semco, the Brazilian portfolio manager that grew from a manufacturing company, has long practiced "what has variously been called participative management, corporate democracy, and 'the company as village.'"<sup>35</sup>

The military in the United States and elsewhere—long characterized by a hierarchical chain of command—also is working to adopt flatter management techniques to improve its ability to respond quickly to new forms of warfare.<sup>36</sup> That was underscored by comments about the military's future from retired U.S. Army Gen. Stanley A. McChrystal and Gen. Martin E. Dempsey, chairman of the Joint Chiefs of Staff, in which each acknowledged the need to streamline the management structure to allow for swifter decisions.<sup>37</sup>

Navy SEALs, for instance, must rely on distributed decision-making in the field.<sup>38</sup> The Israeli military also uses flatter management techniques to increase flexibility and efficiency.<sup>39</sup>

Military leaders "have been putting a huge amount of effort into figuring out how to make distributed decision-making more effective," says

Oswick. "Because what they've discovered is that, in a battle, if you're relying on chain of command, you're not fast enough, and you will lose."

## Can a company have a strong leader and a flat management structure?

The role of the CEO is changing along with the social and business climate that is fostering the move toward flatter management.

David Stein, the co-chief executive of software company Rypple, has a message fellow CEOs may find hard to hear: "They're just not that into you."<sup>40</sup>

"My job is important," Stein wrote in 2011, "but I don't flatter myself that I'm the most important person around in the eyes of my customers or most of our team. I certainly am not from my customers' perspective—or even from the perspectives of most employees."

But as many researchers have noted, flat structures still need managers.

"One of the things that is a little bit deceptive in all of this is that when people talk about flat, it's very rare that people are actually advocating we'll have a group of 2,000 people that are all exactly equal," says Kastle of the University of Queensland. "What people are arguing for when they say flat is, 'Let's go from seven layers for 1,000 people down to three.' So if you do that you still end up with some leadership that is giving us some guidance and setting the course."

In a recent essay for MIT Sloan Management Review, professor of strategy and organization Nicolai J. Foss and economist Peter G. Klein made the case for why business managers still matter.<sup>41</sup>

"The new environment suggests the need for a redefinition of the traditional managerial role," Foss and Klein wrote. "Despite all the changes that have occurred, there is a strong need for someone to define the organizational framework within which a business operates. We argue that, in the knowledge economy, the main task for top management is to define and implement these organizational rules of the game."

That view is not so different from what proponents of flat management advocate. "They argue that you still need some source of entrepreneurial vision, strategy and guidance in your organization," says Kastle, "which I think is, for the most part, true."

To reconcile the argument that managers still matter with the move toward flatter structures, the outside roles that some CEOs have played may come under scrutiny, according to Oswick of City University London. "One of the things that's happened is the rock star CEO—the idea that in order to be successful you need a highly charismatic individual to lead—is becoming more difficult to sustain," he says.

Flat organizations don't buy into the concept that one individual knows best, Oswick says. Rather, it's a collective process.

"The successful, highly effective CEO of the future will be less concerned about what they think and more concerned with what the collective thinks and will involve a number of stakeholders in the decision making process," Oswick says. "It will be less about them as key individuals and will be more about them managing, coordinating, and engaging the efforts of others."

Courtright agrees. "In flat organizations, or these self-managing teams, it doesn't mean the leadership goes away." Rather, "it's just different. So instead of the top leader calling the shots, they provide information and resources so that the team can effectively self-manage."

## Background

### Assembly Lines and Managers

Management principles have evolved significantly since Adam Smith put quill to paper in 1776 to write "The Wealth of Nations," which outlined a new understanding of economics and the role of individuals in the economy.<sup>42</sup> As the manufacture of goods moved from the home and the guild to factories and mills, the Industrial Revolution in the 19<sup>th</sup> century changed thinking about how to manage business and labor.

Workers were brought together under one roof to manufacture products, increasingly using machines. As technology improved and markets expanded, entrepreneurs began experimenting with assembly lines and mass production. Elihu Root developed an assembly system for gunmaker Samuel Colt by dividing the manufacturing process to simplify it. Then, in 1913, Henry Ford perfected the assembly line so his motor company could churn out Model Ts cheaply and efficiently.<sup>43</sup>

The assembly line and other innovations required a new kind of business model, leading to modern management theories that developed around three broad concepts:<sup>44</sup>

- Scientific management was developed by Frederick Winslow Taylor, an American engineer, in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries. He was the first to apply scientific methods to workplace issues, with a specific focus on improving economic efficiency and worker

productivity.<sup>45</sup>

- Bureaucratic management was developed in the early 20<sup>th</sup> century by Max Weber, a German sociologist and political economist, who expanded on the principles of scientific management. He advocated dividing organizations into hierarchies and establishing strong lines of control and authority.<sup>46</sup>
- The human relations movement in management, fostered by behavioral sciences, began in the mid-20<sup>th</sup> century, to counter the dehumanizing elements of earlier management theories and to emphasize that companies prospered when their workers prospered.<sup>47</sup>

Fast-forward another century: As society moved from the industrial era into one based on technology and information, many business observers argued management must change yet again to remain competitive.<sup>48</sup>

As Foss and Klein recapped in their essay for MIT Sloan Management Review, the Industrial Revolution brought the decline of small-scale, cottage production and the rise of large, integrated businesses. “Adam Smith’s invisible hand was replaced with what business historian Alfred D. Chandler Jr. famously described as the ‘visible hand’ of management,” they wrote. “But now that pendulum appears to be swinging in another direction.”<sup>49</sup>

What Taylor saw as rigidly organized factories of docile and obedient workers, they continued, “has been eclipsed by loosely structured teams of highly trained and empowered knowledge workers. Indeed, the ‘visible hand’ of management has morphed into a system of loose networks, virtual businesses and peer-to-peer interactions.”

## ‘Seismic’ Changes

Hierarchical management styles trace their roots to the likes of Taylor, Weber and Ford, all of whom were born before the end of the American Civil War in 1865.<sup>50</sup> The change that’s needed in an era of advancing technology, generational shifts and globalized workforces and marketplaces, says Oswick of the City University London, is of the same magnitude as the move away from scientific and bureaucratic theories that occurred in the mid-20<sup>th</sup> century. “On an organizational level, I think this is as significant as the shift from bureaucracy to flexible forms of organizing,” he says.

In 2009, business consultant Gary Hamel published a landmark essay, “Moon Shots for Management,” in which he argued that management styles dating to the late 19<sup>th</sup> century had “reached the limits of improvement.”<sup>51</sup>

Business executives and experts “must face the fact that tomorrow’s business imperatives lie outside the performance envelope of today’s bureaucracy-infused management practices,” Hamel wrote in the Harvard Business Review.

In 2008, Hamel convened a group of leading business scholars, executives and observers to outline a “roadmap for reinventing management.” The consensus, Hamel said, was that “equipping organizations to tackle the future would require a management revolution no less momentous than the one that spawned modern industry.”<sup>52</sup>

One of the scholars who attended that 2008 meeting with Hamel was Birkinshaw of the London Business School. The hierarchical management model, he says, “is coming under pressure because companies have to adapt more quickly to the rapid changes going on in the business markets.” Hierarchy may be useful in stable times, he adds, but in a fast-paced, customer-oriented business environment, the old model has been found “wanting, it’s been found to be deficient.”

Others who study business trends share the view that management must change to succeed. “In this new world, 20<sup>th</sup> century management involving tight control of workers and measurement of outputs is no longer appropriate or effective,” wrote business consultant Steve Denning.<sup>53</sup>

## Japanese Assembly Lines

The roots of today’s flat management structures date to the auto industry of the 1970s and 1980s, when American automakers realized they needed to learn from the Japanese approach.<sup>54</sup> Toyota gained notice when “they gave every employee on the assembly line the power to stop the entire line if there was something wrong,” says Kastle of the University of Queensland.

In the 1980s and 1990s, General Motors tried to emulate that approach with its Saturn line, following the Japanese automakers’ flat management philosophy. And, for a while, Saturn proved to be a management success.

“The whole point of that was they had set up Saturn as an independent so that they could learn how to manufacture in a different way,” Kastle says. “The Saturn division did, in fact, do that incredibly successfully and then came back into the core business. The idea was, those ideas were going to flow through the rest of GM when, in fact, what happened was that the machine of General Motors just crushed all of that independent bit of Saturn so at that point the whole experiment fell over.”

Honda and Toyota remain fairly hierarchical. Birkenshaw says, “but have figured out how to balance the need for top-down control with the opportunity for bottom-up input.”



Workers at GM's Saturn plant in Spring Hill, Tenn., assemble cars in October 1990, when the automaker's experiment in management was still new and considered a success. Saturn production ended in 2009. (Ted Thai/The LIFE Images Collection/Getty Images)

In contrast, General Motors seemed to tire of the Saturn effort after just a few years, according to [John Paul MacDuffie](#), a Wharton management professor and co-director of what's now known as the Program on Vehicle and Mobility Innovation, a research consortium. “The story of Saturn is not so much the boldness of the ideas, but that GM was unable to follow through,” he said. “It just never figured out how to take the lessons that could be learned at Saturn and apply them elsewhere.”<sup>55</sup>

The management challenges in other industries were equally daunting. “Back when this was starting to come in the '80s, when the [flat] practice was starting to be talked about more and more, it really was the manufacturing organizations that were [experimenting], and it was a complete shift in mindset for them,” Courtright of Texas A&M says. “In some cases they were successful, and in some they weren't.”

## ‘Engaged, Not Led’

In the 1990s and 2000s, technological change accelerated, and the Internet and social media became integral to business. This propelled the move toward flatter management techniques, in part because information no longer flowed down from the top of a management pyramid, but instead spread horizontally.

Oswick points to three social and technological changes that have allowed flat management to gain favor:

- The ability to communicate and disseminate information in real time through technology and with social media. Informal channels can challenge information disseminated through formal channels. “If a message comes down formally from the top downwards,” Oswick says, “already people who are stakeholders for the organizations are contacting people they know to come in to tweet on it in real time.”
- A shift in social attitudes that has occurred gradually over the last 20 to 30 years. Younger workers are more likely to “want to be engaged, not led,” he says. “So that creates a very different dynamic.”
- The slow reaction time of traditional hierarchical organizations because they're very structured and rules-governed. “In an increasingly turbulent world,” Oswick says, “organizations need to be flatter so they can be more responsive and dynamic in the way that they treat challenges within their environment, but also the way to drive innovation.”

## Current Situation

### Flat as Philosophy

Companies increasingly are moving away from traditional hierarchies, incorporating techniques aimed at reducing bureaucracy and distributing decision-making.

Turning to a flatter structure requires a two-tiered approach, says Courtright, involving not only a company's organizational flow chart but



also the mindset of its employees. “When you think about flat management, what’s really at the heart of it is to do away with layers of management and allow people to have more freedom and control of work,” he says. “There’s sort of this structural perspective to it, and then there’s the psychological perspective to it.”

Oswick agrees: “I think flat management has taken that one step further, insofar as it’s not really about structure anymore. I think flat management is more about philosophy, a way of doing things that moves away from hierarchy more towards networks.”

These networks encompass groups of employees, working together and managing themselves, and spread out horizontally; they sometimes represent the business form of societal phenomena, such as crowdsourcing, due to technology that allows for real-time communications. People want to be part of the process, Oswick says.

“We increasingly see the organizational equivalent of flash mobs and groups of employees self-organizing and instigating change,” Oswick says, meaning “collective groups of employees coalescing around a common interest with mutual gain.”

Generational changes appear to be a factor as well. When Courtright discusses flat management with his students at Texas A&M, “to them it’s almost a given. They’re not surprised that this is what should be done. I don’t think that was the case 30 years ago when we were teaching business. It would’ve been a far more rogue practice than it is now. Now it just makes sense. And students of mine look for that when they go and get a job.”

Although some researchers hesitate to put too much emphasis on the generational element, Harris of Quantum Workplace has seen similar indicators. Research by Quantum has found that flatter organizations draw younger job applicants because they offer more autonomy.<sup>56</sup>

“They want to have more impact quicker,” Harris says. “They don’t want to be a small cog in the wheel, and we’re seeing that in recruitment. Today, talent is more likely to get excited about a role than they are a company name.”

## Different Approaches to Flatness

While the flat management concept covers many different approaches, there are companies that offer specific methods to help businesses streamline. Each aims to improve efficiency, speed communications and empower workers with more decision-making authority, but each takes a different approach. Among them:

- “Holacracy” gained attention after Zappos announced it would implement this method, which is offered by its founding company, HolacracyOne.<sup>57</sup> The online retailer’s move generated widespread interest and scrutiny about how holacracy works and whether it will be successful.<sup>58</sup> Another business using holacracy is Medium, a publishing website from the founders of Twitter.<sup>59</sup>
- WorldBlu advocates a slightly different management approach based on what it calls “organizational democracy.”<sup>60</sup> The underlying philosophy, according to founder Fenton, is that organizational design leads to organizational culture. “I believe in giving power to people; I believe in eliminating hierarchy as much as possible, but you still have to have some level of hierarchy,” she says. “Hierarchy isn’t necessarily bad. It’s the bureaucracy and the mindless hierarchy that you want to get rid of.”
- The Morning Star Self-Management Institute espouses yet another model based on the principles developed at the Morning Star Co., “a fundamental mind-shift in the way we view human organizations, management and organizational strategy”: Empowered workers, it has argued, are creative workers.<sup>61</sup> This approach has gained attention in business circles since the 2011 publication of the essay, “First, Let’s Fire All the Managers.”<sup>62</sup> In that article, business consultant Gary Hamel asserted that “with a bit of imagination, it’s possible to transcend the seemingly intractable trade-offs, such as freedom versus control, that have long bedeviled organizations” and that “we don’t have to be starry-eyed romantics to dream of organizations where managing is no longer the right of a vaunted few but the responsibility of all.”<sup>63</sup>

## Not Without Downsides

As companies grow, flat management structures can present problems, and some have dealt with issues concerning career development, employee grievances, office politics and even the lack of social diversity among employees with such similar workplace styles.<sup>64</sup> Two of the leading flat software companies—GitHub and Valve—have addressed problems, often in a public manner fueled by social media.

After leaving the company, former Valve employee Jeri Ellsworth characterized the experience as “a lot like high school.”<sup>65</sup> “The one thing I found out the hard way is that there is actually a hidden layer of powerful management structure in the company and it felt a lot like high school. There are popular kids that have acquired power in the company, and then there’s the troublemakers, and everyone in between,” she said on the Grey Area, a podcast about game development.<sup>66</sup>

GitHub, another tech company with a flat management structure, also faced personnel issues, following public accusations of sexism and intimidation that played out on social media after a former employee left the company. That situation led the company to strengthen human-resource procedures and establish leadership-training programs as well as create distinct managerial positions.<sup>67</sup>



Jason Fried, founder and CEO of the Chicago-based software company Basecamp, formerly known as 37Signals, recounted his company's experience when a successful employee wanted to be rewarded with managerial duties and a new title. "The really strange thing was the reason this employee and I decided it was time to part ways," he wrote in a column for Inc. magazine. "The issue was ambition—not a lack of it, but more of it than we could use."<sup>68</sup>

None of this surprises researchers who study management techniques. They acknowledge that leaders—whether based on expertise, personality, initiative or other traits—will inevitably emerge. The question then becomes, according to Courtright, whether it is better to have formal leadership imposed on employees or informal leadership that arises naturally.

"That's how it's supposed to work," says Courtright, who explains, "With natural leadership emerging, that means there has to be consensus among the organization that this person is worthy of following, basically, versus in a hierarchical organization where you really have no choice."

These researchers also acknowledge what the companies on the leading edge have found: There's a risk in being among the first to make such changes. But, the other side of that coin is that if companies wait for such changes to become established knowledge, they will fall behind.

## Looking Ahead

### 'The Trend Is Inescapable'

With societal factors propelling a move toward flatter management techniques, flat management observers say the approach will gain popularity.

"The trend is inescapable, just as the trend away from bureaucracy occurred from the 1920s to the 1950s," says Oswick of the City University London. Flat management "will be the dominant form of organization 15 to 20 years from now."

Karl Moore, an associate professor of strategy and organization at McGill University's Desautels Faculty of Management in Montreal, wrote about the situation from a generational perspective with business student co-author Kyle Hill.<sup>69</sup> "From business to the public service to the military, the conclusion is profound: hierarchy is not collapsing, but it is declining," they wrote. "All sectors need to rethink their organizational structure and work environment. The public service needs to shed its layers of hierarchy. The military needs to move from command-and-control practices to consultative leadership. And to remain competitive postmodern businesses need to reduce bureaucracy and facilitate engagement."



Gen. Martin E. Dempsey, chairman of the Joint Chiefs of Staff, meets with service members in Afghanistan in 2013. Dempsey has called for more decentralized operations in the traditionally hierarchical military. (D. Myles Cullen/Department of Defense)

The military is working to do that. In discussing his vision for 2020, Gen. Dempsey used the language of business to outline the need for military change: the impact of "viral effects," the "rapidity of change" and the "cascading and merging of technology" are compelling the move.<sup>70</sup>

We have to be agile enough to see ourselves and to adapt on a far tighter cycle than ever before in our history, and I think we can do that," he said in a 2011 speech. Dempsey, chairman of the Joint Chiefs of Staff, was then Army chief of staff.

To accomplish that, Dempsey said, the Army plans to empower its forces from the "bottom up." That was the theme of a 2012 "Mission Command" white paper that advocated allowing smaller groups to operate in a "decentralized" manner that would allow forces to adapt and respond more quickly.<sup>71</sup>

For Kastle, that such changes

"I view that as a pretty important lead indicator in all of this," he says, "that the militaries of the world are trying to figure out, 'How do we give our lowest-ranking members more decision-making authority so that they can use it effectively.'"

Ultimately, Oswick says, "it's here to stay." The need for businesses to flatten organizations and move away from traditional hierarchies is more than a management fad. "This is something which is far more enduring, because it is a slow shift in social attitudes changing," he says, "and it's a slow but gradual shift in technological change."

He says, "This is enduring and significant, and I can't see how—short of us going back to not using technology, to using carrier pigeons rather than email—short of doing that, I can't really see how this trend would be reversed."

## Chronology

<b>1770–1900</b>	<b>Business complexity leads to development of new management techniques.</b>
<b>1776</b>	Adam Smith writes " <a href="#">The Wealth of Nations</a> ," outlining a new understanding of economics.
<b>1800s</b>	Industrial Revolution brings the rise of mills and factories, where workers are under one roof to manufacture products, increasingly using machines.
<b>1880s</b>	Frederick Winslow Taylor introduces the concept of scientific management, designed to improve economic efficiency; he later publishes his " <a href="#">Principles of Scientific Management</a> ."
<b>1901–1960s</b>	<b>Management techniques advance.</b>
<b>1913</b>	Henry Ford perfects the assembly line.
<b>1920s</b>	Max Weber introduces the concept of bureaucratic management, focusing on standardized procedures and a clear chain of command.
<b>1940s</b>	Drawing on behavioral sciences, human relations management begins to develop, emphasizing that companies prosper when their workers prosper.
<b>1954</b>	Abraham Maslow publishes his hierarchy-of-needs theory of what motivates people, paving the way for his later work on what he called enlightened management.
<b>1954</b>	In his book " <a href="#">The Practice of Management</a> ," Peter Drucker introduces the five basic roles of managers, which are to set objectives, organize tasks, motivate and communicate, measure performance, and develop people.
<b>1958</b>	Clothing manufacturer W.L. Gore & Associates is founded and becomes a pioneer of flat management techniques.
<b>1970s–1990s</b>	<b>Flat management gains a following.</b>
<b>1970</b>	Tomato processor Morning Star Co. is founded, employing self-management techniques.
<b>1986</b>	Six Sigma, a set of techniques and tools to improve business efficiency and production quality, is developed at Motorola. Although it began as a quality-control concept in the manufacturing sector, it has evolved into a widely used management philosophy focused on customer service and product improvement.
<b>1988</b>	General Motors prepares to open its first Saturn plant, where it attempts to emulate Japanese automakers' management and production techniques by giving its workers more authority. Production ends in 2009.
<b>1990s–2010s</b>	<b>Rise of the Internet and the spread of social media accelerate management changes.</b>
<b>1996</b>	Valve Software is founded with no formal management structure.
<b>2001</b>	A group of 17 software developers publishes the " <a href="#">Agile Manifesto</a> ," which proposes alternatives to traditional project management through collaboration among self-organizing, cross-functional teams.
<b>2009</b>	Management consultant Gary Hamel publishes a landmark essay in the Harvard Business Review, "Moon Shots for Management," in which he argues that management styles dating to the late 19th century have "reached the limits of improvement."

- 2010s** Business and military leaders implement flatter management strategies.
- 2012** Joint Chiefs of Staff Chairman Martin E. Dempsey issues white paper detailing the need for greater “mission command”—decentralized decision-making in the field—as a key element of military preparedness.
- 2013** Online shoe and clothing retailer Zappos becomes the largest company to adopt the holacracy management technique.

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## For More Information



### **HolacracyOne**

1741 Hilltop Rd., Suite 200, Spring City, PA 19475  
484-359-8922  
[holacracy.org](http://holacracy.org)

The company that developed the management theory of holacracy.

### **Morning Star Self-Management Institute**

500 Capitol Mall, Suite 2050, Sacramento, CA 95816  
916-925-6500  
[self-managementinstitute.org](http://self-managementinstitute.org)

Research and education company that advocates a management model based on the principles developed at the Morning Star Co.

### **WorldBlu**

316 E. Court St., Iowa City, IA 52240  
202-251-8099  
[worldblu.com](http://worldblu.com)

A company that advocates the management theory of organizational democracy.

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